

Message Text

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15

ACTION SS-25

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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 5706

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 10284

EXDIS

E.O. 11652: GDS
TAGS: PFOR IMF EG US
SUBJECT: SEVEN POINT PROGRAM TO RAISE FUNDS FOR EGYPT: PROPOSED
EIGHTH POINT

1. SUMMARY: DESPITE EARLIER LACK OF SUCCESS, WE BELIEVE THAT FURTHER EFFORTS SHOULD BE MADE TO ENLIST SUPPORT FOR COMMERCIAL BANK REFINANCING OF A PORTION OF EGYPT'S SHORT-TERM DEBT. THE SERIOUSNESS OF THE GOE'S FINANCIAL DIFFICULTIES DICTATE THAT ALL ASSISTANCE AVENUES BE EXPLORED IN VIEW OF THE IMPORTANCE WE ATTACH TO THE CONTINUED ECONOMIC VIABILITY OF THE COUNTRY. END SUMMARY.

2. IT SEEMS MORE THAN LIKELY TO US, FROM THE PERSPECTIVE OF CAIRO, THAT THIS YEAR'S HAT-PASSING EXERCISE WILL, FOR A VARIETY OF REASONS, NOT PRODUCE GREAT RESULTS. GIVEN THE SHEER MAGNITUDE OF EGYPT'S UNFINANCED OBLIGATIONS OVER THE NEXT FIVE MONTHS (ONE BILLION DOLLARS, MORE OR LESS), THE SIZE OF BILATERAL SUPPORT ALREADY PLEDGED OR FORTHCOMING FROM THE U.S. AND THE ARAB NATIONS, AND THE RELATIVE INATTENTION OF WESTERN EUROPE AND JAPAN TO EGYPT'S ECONOMIC WOES IN THE CONTEXT OF THE CURRENTLY QUIESCENT CONFRONTATION WITH ISRAEL, THERE APPEARS TO BE VERY LITTLE CHANCE THAT APPROACHES TO POTENTIAL DONORS WILL RESULT IN MORE THAN TOKEN INCREMENTS TO THE ALREADY LARGE-SCALE,
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YET INSUFFICIENT ASSISTANCE PROFERRED

TO THE GOE. FURTHERING THE PEACE PROCESS IN THE MIDDLE EAST NEVERTHELESS REMAINS OF VITAL IMPORTANCE TO THE WEST (AND INDEED SHOULD TO ALL OIL IMPORTING NATIONS), AND EGYPT'S ECONOMIC VIABILITY AND FUTURE DEVELOPMENT REMAIN KEY FACTORS IN CONTINUATION OF THE PRESENT MOST WELCOME PEACEFUL STATE OF AFFAIRS IN THE REGION (EXCEPTING THE SPECIAL CASE OF LEBANON, OF COURSE).

3. WE ARE FRANKLY CONCERNED ABOUT THE COURSE OF EVENTS IN THE ECONOMIC/FINANCIAL FIELD OVER THE NEXT FEW MONTHS IF, AS IT MUST, THE PASSING OF HATS COMES UP SIGNIFICANTLY SHORT. WHILE CREDITORS ARE REACTING WITH CALM THUS FAR TO THE CURRENT PICTURE OF 45-DAY (AND MORE) ARREARS IN BANK CREDIT FACILITY PAYMENTS AND 90-DAY ARREARS IN SUPPLIERS' CREDIT OBLIGATIONS, ACCORDING TO OUR SOUNDINGS, THE FINANCIAL SITUATION IS CHARACTERIZED AS THE WORST SINCE THE 1973 WAR AND IS EXPECTED TO GET WORSE YET. IN AN INTERNATIONAL PAYMENTS SENSE, EGYPT IS BROKE, WITH INSUFFICIENT FUNDS DUE FROM ANY AND ALL SOURCES OVER THE REST OF THIS YEAR TO MEET EXTERNAL OBLIGATIONS DERIVING FROM CREDIT EXTENDED IN THE PAST TO COVER ITS IMPORT BILL. THE WEALTHY ARAB STATES ARE DOLING OUT MONEY IN AMOUNTS AND WITH CONDITIONS THAT DO LITTLE TO ASSIST IN RECTIFYING EGYPT'S BASIC ECONOMIC PROBLEMS.

4. THE CRUX OF THE PROBLEM AS WE HAVE EARLIER INDICATED IS THE AMOUNT AND COST OF SHORT-TERM DEB. IF THAT BURDEN COULD BE ALLEVIATED SIGNIFICANTLY, THE SPECTOR OF RECEIVERSHIP COULD BE LIFTED AND EGYPT COULD BE AFFORDED TIME TO PUT ITS ECONOMIC HOUSE IN ORDER, NOTABLY IN TERMS OF ARRESTING THE TREND OF HUGH INCREASES IN IMPORTS OVER THE PAST TWO YEARS. MUCH MORE THAN IMPOSING A BRAKE ON IMPORTS AND IMPROVING THE BALANCE OF PAYMENTS PICTURE NEEDS TO BE DONE, OF COURSE, BUT FIRST THINGS SHOULD COME FIRST.

5. WE HAVE A SUGGESTION. WHILE ATTEMPTING TO ENLIST
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CONTRIBUTORS TO THE CAUSE OF EGYPT'S FINANCIAL SHORTFALL ON A GOVERNMENT-TO-GOVERNMENT BASIS, NO MATTER HOW FUTILE SUCH AN EXERCISE MIGHT BE ESSENTIALLY, AND WHILE PURSUING THE OTHER STEPS IN THE SEVEN-POINT PROGRAM, WE SHOULD ALSO MAKE A NEWLY CONCERTED EFFORT IN MARSHALLING SUPPORT FOR A SALVAGE JOB BY COMMERCIAL BANKS AT THE SHORT-TERM CREDIT AREA, I.E., ARRANGING AN AT LEAST INFORMAL

CONSORTIUM TO REFINANCE AS MUCH AS FEASIBLE OF EGYPT'S BANK CREDIT FACILITY OBLIGATIONS. IF ALL OR NEARLY ALL OF THE NON-EGYPTIAN BANKS MAINTAINING COMMERCIAL RELATIONSHIPS WITH EGYPT COULD BE INDUCED TO LOAN A FEW MILLION EACH, WITH SOME TAKING LARGER SUMS, UNDER CONDITIONS OF FIVE-YEAR REPAYMENT AT INTERNATIONALLY-COMPETITIVE RATES, AND IDEALLY WITH AN UP TO TWO-YEAR GRACE PERIOD, THEN THE SAVINGS TO EGYPT WOULD BE ENORMOUS AND THE RESPITE AFFORDED THIS YEAR AND NEXT HIGHLY SIGNIFICANT.

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 10284

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6. A NUMBER OF PRACTICAL DIFFICULTIES OCCUR IMMEDIATELY. PERHAPS THE MOST IMPORTANT IS THE UNSECURED NATURE OF SUCH LOANS, BUT APPROPRIATE GUARANTEES FROM IRAN OR SAUDI ARABIA, ALTHOUGH DISCUSSED TO NO AVAIL HERE AND THERE PREVIOUSLY, NONETHELESS ARE NOT TOTALLY INCONCEIVABLE. ANOTHER PROBLEM IS THE GOE'S LACK OF INITIATIVE AND ABSENCE OF FOCUS WITHIN GOVERNMENT LEADERSHIP IN ADDRESSING EVEN MONUMENTALLY PRSSING ECONOMIC QUESTIONS. IT IS IN THESE AREAS, HOWEVER, THAT DILIGENT SPADE WORK IS NEEDED BY US IN (1) CONVINCING THE GOE TO TAKE AN EFFECTIVE LEAD IN NEGOTIATING COMMERCIAL BANK RELIEF FOR ITS UNECONOMIC SHORT-TERM DEBT AND (2) PERSUADING OTHERS, BANKERS GUARANTORS ALIKE, TO SUPPORT EGYPT'S OWN EFFORTS IN THIS CONNECTION.

6. A CONCERTED DRIVE IN THIS DIRECTION, ALTHOUGH CERTAINLY NOT SURE OF SUCCESS, APPEARS TO US TO BE

POTENTIALLY MORE REWARDING THAN A PIECEMEAL BILATERAL APPROACH ALONE TO VARIOUS SUPPOSEDLY CONCERNED COUNTRIES TO HELP OUT ONCE AGAIN. THE LATTER HAT-IN-HAND METHOD HAS BECOME MORE AND MORE FRUSTRATING, AS THE DEPARTMENT IS WELL AWARE, AND SHOULD BE VIEWED REALISTICALLY AS LIKELY TO PRODUCE MEAGER RESULTS. ANOTHER EFFORT AT COACHING AND SUPPORTING THE GOE IN A DEBT REFINANCING PROCESS OFFERS A POSSIBILITY WHICH STRIKES US AS POTENTIALLY FRUITFUL, EVEN WITH ALL THE COMPLEXITIES INVOLVED IN BRINGING ABOUT A USEFUL
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REDUCTION IN EGYPT'S IMMEDIATE FOREIGN EXCHANGE OBLIGATIONS THROUGH THAT MEANS.

8. A STRATEGY EMPHASIZING THIS APPROACH TO AIDING EGYPT THROUGH THE NEXT MONTHS AND OVER THE NEXT YEAR OR SO IN OUR VIEW WOULD DONATE ORCHESTRATION AT THE HIGHEST LEVELS OF THE DEPARTMENT. AND THERE IS NO TIME TO BE LOST. WE HESITATE TO SUGGEST A SCENARIO FROM OUR VANTAGE POINT, GIVEN THE NEED FOR WASHINGTON DIRECTION OF SUCH AN EXERCISE, BUT SUBMIT FOR CONSIDERATION THE FOLLOWING STEPS TO BE TAKEN:

A. DISCUSS POSSIBILITIES OF, PRECONDITIONS FOR, AND MODALITIES OF SHORT-TERM DEBT REFINANCING AT APPROPRIATELY HIGH LEVEL WITH ALL U.S. COMMERCIAL BANKING INSTITUTIONS NOW HAVING MORE THAN MINIMAL "EXPOSURE" IN EGYPT, WITH SPECIAL REFERENCE TO CHASE MANHATTAN IN VIEW OF DAVID ROCKEFELLER'S INTEREST;

B. IF THESE SOUNDINGS PERMIT FORWARD MOVEMENT AND WE REALIZE THIS IS A BIG IF--TAKE UP THE QUESTION WITH THE EGYPTIANS, BOTH IN WASHINGTON AND CAIRO, BEING CAREFUL, OF COURSE, TO AVOID THE APPEARANCE OF HOLDING OUT FINANCIAL SALVATION THROUGH THIS ONE TENTATIVE EFFORT TO ALLEVIATE A PARTICULAR PROBLEM;

C. IF WE ARE STILL ON TRACK AFTER THESE TALKS, DISCUSS INFORMALLY THE QUESTION OF GUARANTEES WITH THE IRANIANS AND THE ARAB OPEC STATES, AND, MOST IMPORTANTLY, SUGGEST POINTEDLY THAT THE GOE DO THE SAME, POSSIBLY LOOKING TO THE NEW GULF DEVELOPMENT ORGANIZATION AS A VEHICLE WHILE IT IS STILL IN ITS FORMATIVE STAGES;

D. AT THIS POINT IT SHOULD BE ABUNDANTLY EVIDENT WHETHER THE INITIATIVE HOLDS PROMISE

FOR DETAILED MULTIPARTITE NEGOTIATIONS AND WHAT
FURTHER U.S. ROLE MIGHT BE INDICATED.

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9. THE REACTION TO THE DEPARTMENT TO THIS PROPOSAL
WOULD BE APPRECIATED.
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